CLARIFICATION ON THE APPLICATION OF A GUIDE TO THE STATISTICAL TREATMENT OF PPPS: RESPONSES TO FREQUENTLY ASKED QUESTIONS EUROSTAT

Responses to Eurostat answers: Robert Heath

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Price movements during the Construction Phase

Question 1:

Eurostat does not provide a clear answer to the question asked. The answer appears to be saying that indexed price movements during the construction phase are neutral to the statistical treatment: "the authority can take or share the risk of movements in construction prices …. without any impact on the statistical treatment of PPP." I do not agree.

If construction costs are indexed, I do not understand why this does not affect Eurostat assessment of the risk to the government. Indeed, the similar stance taken on operational cost – neutral impact on statistical treatment, appears to me to be contradicted in the answer to question 11 regarding interest rates – see ahead.

Indeed, the answer seems to contradict its own 10%, 33% and 50 % rules. What happens if the indexation results in construction costs that breach these rules. One could easily envisage a situation whereby a government sets up a scheme with built in indexation that meant that the initial assessment was that the PPP should not be in the government balance sheet but would be majority financed by government when the indexation kicked in.

I would be grateful if ONS staff could outline their interpretation of the Eurostat answer.

Assessing a contract change

2 Agree that a new revised contract should necessitate a reassessment of the original decision.

Type of asset (Chapter 2)

3. Okay.

Revenues received by government from the project (Chapter 2) / Third party revenues from the asset (Theme 5.5)

4. Do not agree.

I see the distinction Eurostat is making between use of the asset and services delivered from the asset. However, it appears to me a false distinction and directly contradicts 2008 SNA paragraph 22.156: this clearly states that a government might use a PPP asset as an input to its own provision of services, which according to the clarification paper should not be taken into account when judging the rewards from a PPP project.

To give an example from the paper: if the authority receives tuition fees for education services provided from the PPP project this does not count as a revenue reward from the PPP asset according to the table, but if the government rents out the PPP asset to a third party to receive tuition fees and pays the government a fee for doing so it does count as a reward. It is easy to see how governments could manipulate this distinction.

A similar fine distinction from the examples is that fees the government receives from a road built is regarded as a reward but fees received from patients from a PPP hospital are not – but in both cases the government is providing a service.

So, for the examples 2, 6 and 7 in the table, I disagree with "no" and would say "yes."

5. Okay

6. Okay

7. Okay

Design and construction of the asset (Theme 2)

8. There are various strands to this answer.

I disagree with the proposal in the first paragraph that payments by the Partner for costs incurred by the Authority for site investigations and site preparation works would not influence the statistical treatment. These are direct costs borne by the government and if compensated by the Partner reduce the costs (risks) for the government.

While not clearly stated, the second and third paragraphs of the answer imply that if the Authority is compensated for site preparation and such like costs undertaken on behalf of the Partner – it is the Partners own design etc, then this does affect the statistical treatment unlike if the Authority is compensated for the costs arising from the Authority's own design, in which case Eurostat is "likely" to view "as a loan." Again, a very fine distinction is being drawn that could be open to manipulation.

Operation and maintenance of the asset (Theme 3)

9. Okay

Changes in law (Theme 8)

10. According to the Eurostat manual (theme 8 page 84), whether changes in the law impact the statistical treatment depends on whether the change in the law was foreseeable at the date of signature or not. The answer does not bring out this point.

Interest rate adjustments (Theme 14.2)

11. I agree but the logic of the answer appears inconsistent with theme 5.4, explained in question 1: that indexation of operational payments do not affect the statistical treatment. Interest costs are operational costs, yet these cost fluctuations do affect the statistical treatment according to the answer.

Government financing (Theme 14.4)

12. Okay

13. Okay

14. Okay

15.Okay

16.Okay

17. Okay.

18.Okay. The paper does not explain why EU grants are netted off the provision of funds for capital expenditure but not for operational expenses. I would agree with this approach on the grounds that for the former there is a positive impact on risk/reward through government net worth unlike the latter.

19. No comment. Need more explanation to fully assess.